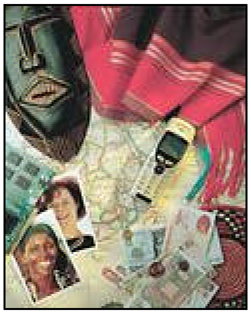

FINANCE & DEVELOPMENT
A quarterly magazine of the IMF
December 2001, Volume 38, Number 4

How Tunisia Is Meeting the Challenges of Globalization

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Tunisia's approach to globalization was inspired by dramatic changes in the world economy at the end of the twentieth century: the end of the Cold War, which had governed international relations for nearly half a century; rapid technological progress, especially in information and communications; and the conclusion of the General Agreement on Tariffs and Trade (GATT) and creation of the World Trade Organization. The scope of these changes and the speed with which they occurred were unprecedented. Traditional alliances between nations were dissolved and new partnerships emerged, as the centers of power and influence shifted. Globalization accelerated and national policies became more interdependent. Countries around the world seeking to safeguard their interests in the new international configuration joined together to form regional groups.

In the wake of these developments on the international stage, markets have expanded and international trade and capital flows have soared, offering countries new opportunities for growth. At the same time, competition between developing countries seeking to position themselves in the world economy, preserve or increase their market share, and attract capital flows has been very strong. The integration of countries into the new global economy has thus not always been smooth, and countries unable to adapt to the international developments of the past 10 years risk being excluded or marginalized.

Tunisia's partners

Because of its geographic position, Tunisia has always played an important role in both the Mediterranean and the Arab-African regions. Now, more than ever, Tunisia is keenly interested in preserving its influence—an important asset in this constantly changing world—in both regions. Building a dynamic Arab Maghreb Union has always been a focus of Tunisia's policy. As regards cooperation with the countries of Africa, the speed with which Tunisia ratified the agreement to establish the African Union demonstrated its determination to work toward strengthening the continent.

In 1995, Tunisia was one of the first countries in the southern Mediterranean to draw up a partnership and codevelopment agreement with the European Union (EU). The agree- ment, which was the natural outcome of a long period of economic reform in Tunisia, called for liberalizing trade relations and tightening financial ties, as well as for deepening cultural exchanges and political cooperation. A key component of the agreement was the establishment of a free trade zone.

More than three-fourths of Tunisia's trade is currently with the EU, making the latter Tunisia's primary trading partner, and the EU is the source of nearly two-thirds of the capital that flows into Tunisia, mostly in the form of direct investment. In addition, the EU accounts for a large share of Tunisia's tourism market and is the region with the largest community of expatriate Tunisians.

Within this framework, Tunisia has adopted a package of economic and social measures with a view to becoming more competitive in the world economy. The Tunisian government has given priority to sustaining a sound macroeconomic framework and to deepening structural reforms. The former achievement has contributed to an improvement in the business climate, spurred private initiative, and made Tunisia more attractive to foreign investors, while Tunisia's structural reforms are designed to make Tunisian enterprises more competitive with firms in Europe as well as in neighboring countries. A program to upgrade production units and increase productivity has been introduced. It covers all economic sectors, from industry to services, from banks to administration, from public institutions to private professional organizations, from small enterprises to major public utilities.

Tunisia's partnerships cannot grow, however, without the continued support of the international agencies—in particular, the World Bank Group and the International Monetary Fund. These agencies, through the establishment of appropriate regulatory mechanisms, can help ease the impact of external shocks on Tunisia and its partners.

Recent achievements

Tunisia seeks to join the ranks of the developed countries. Its encouraging economic performance during this transitional phase of its partnership with the EU indicates that it is on the right track. Some of Tunisia's noteworthy economic and fiscal achievements in the past few years include an average annual economic growth rate of 5.3 percent during 1997-2001; a steadily rising annual investment rate that has exceeded 25.7 percent of GDP in the past few years; a reduction of inflation to less than 3.2 percent a year; a fiscal deficit of 2.8 percent of GDP during 1997-2001; an average annual current account payment deficit of 3.5 percent of GDP; a reduction of debt to 50 percent of GDP in 2001; and a debt-service ratio of about 15 percent in 2001. The main human development indicators have also improved considerably: per capita income (measured in terms of purchasing power parity) has risen to $5,000, life expectancy at birth to 72 years, and school enrollment to 68 percent of the population between 6 and 24 years old. The number of people living in poverty has dropped considerably, from 12.9 percent of the population in 1980 to 4.2 percent in 2000.

The Tunisian economy will soon be confronted, however, by new challenges arising from the implementation of the next phase of its free-trade agreement with the EU, which calls for dismantling tariffs, liberalizing the service sector, and dissolving the Multifiber Arrangement, as well as from the EU's expansion to include the Central and Eastern European countries.

The focus of Tunisia's five-year development strategy, which calls for the acceleration of reforms, confirms its determination to be a major player in the push for European and regional integration. The government's Tenth Development Plan anticipates faster future growth of at least 6 percent to allow Tunisia to meet the growing demand for jobs. For Tunisia to achieve this target, investment will have to reach 26.6 percent of GDP in 2006, 60 percent of which is expected to come from the private sector.

Further economic integration

The only way Tunisia can hope to achieve its ambitious growth objectives is by opening up further to the Euro-Mediterranean area. Based on the objectives established by Tunisia's Ninth Development Plan (1997-2001), the cooperation between Europe and Tunisia has thus far focused on the following areas:

- macroeconomic and fiscal reforms, supported by two structural adjustment operations, including, in connection with privatization, the deregulation of sea transport and ports, expansion of foreign trade, financial sector reforms, and public expenditure for social purposes;
- private sector development, with technical assistance aimed at improving the economic environment for the private sector, especially in the areas of privatization and competitiveness, and risk capital from the European Investment Bank (EIB) to reinforce the capital of enterprises undergoing privatization and restructuring; and
- social balance, with an integrated rural development and natural resources management program, exploitation of minihydro resources around hillside dams, environmental protection in urban areas, a job-creation program to ease the effects of enterprise privatization and restructuring, and reform of the health insurance system.

Initial assessments of the Euro-Mediterranean partnership reveal that all of the southern Mediterranean countries—Tunisia perhaps more than others—face a number of problems.

With respect to financing, nearly €7 billion was programmed for 1995-99— €4.6 billion under the Mediterranean Economic Development Aid (MEDA) program and €2.3 billion in EIB loans—to cover a portion of the costs of opening the economies of the South and of the necessary supporting reforms. However, disbursements fell short of these targets: only 27 percent of the MEDA funds, and 32 percent of the EIB loans, were actually disbursed.

In addition, in light of the progress being made in lowering tariff barriers—which will ultimately affect nearly all consumer goods—Tunisia is facing rapidly declining tax receipts. This problem heightens the urgency of restructuring Tunisian enterprises trying to compete with European firms, to offset shortfalls in tax revenues.

Moreover, products from the Mediterranean countries still have a very small share of the European market. Indeed, since the 1980s, the privileges granted to the Mediterranean region have been eroded as the EU has opened itself up to other regions, establishing free trade agreements with nontraditional partners such as South Africa, Mexico, Mercosur (a regional trade bloc consisting of Argentina, Bolivia, Brazil, Chile, Paraguay, and Uruguay), the emerging Asian countries, and the Central and Eastern European countries. In fact, foreign direct investment has begun to show a marked preference for the Central and Eastern European countries, especially since the latter started preparing for EU membership.

Despite these constraints, which underline the need to redefine reciprocal commitments, new prospects are opening up. Officials attending the Euro-Mediterranean Conference, held in Marseilles in November 2000, acknowledged the problems described above. They agreed that investment, especially foreign direct investment, in Europe's Mediterranean partners was still insufficient to sustain growth and stimulate supply in the latter. They also reaffirmed the objectives set forth in the agreement struck by the EU and the countries of the southern Mediterranean in 1995—in particular, that of creating a free trade zone in 2010. The conference participants welcomed the free trade zone established by Egypt, Jordan, Morocco, and Tunisia and stressed the need for EU support for the zone. They also pledged future support, with a focus on training, employment, professional refresher courses, educational and social reforms, promotion of the role of women in economic development, and cooperation in the field of health.

However, the implementation of the agreement with the EU is likely to have a negative fiscal impact initially, highlighting the importance of Europe's financial commitment, especially because Tunisia and the other countries in the southern Mediterranean will be faced with the problem of balancing their needs for healthy fiscal and external balances against those for in-depth restructuring.

With respect to the external debt of the Mediterranean countries, the Marseilles Conference recommended "continuing the dialogue with a view to identifying solutions in the institutions concerned." It is worth noting that the traditional approach—in which donor countries make financing available to developing countries contingent on the latter's implementing certain pre-agreed reforms—is no longer relevant. The excessive use of conditionality by donors has come under growing criticism. Donors' emphasis should be on supporting the reforms adopted and controlled by the countries themselves.

In addition, as new comparative advantages and new specializations are identified, productive resources will have to be reoriented toward technology-intensive growth activities. From this standpoint, the problem to be addressed is that of Europe's commitment to transferring the technologies the Mediterranean countries will need to develop these new sectors.

Finally, when the liberalization of trade in agricultural products and the restructuring operations it entails begin, the question of contractual obligations arises. The impact of agricultural liberalization will be determined largely by the extent of Europe's commitment to providing support for upgrading the Mediterranean countries' agriculture sectors.

There is no magic wand for solving the numerous challenges associated with globalization. Although interregional cooperation is an important—even indispensable—tool in the development of individual countries, it cannot solve all problems by itself. Internal incentives, the political will to persevere on the path of reform, and the understanding needed to make the right choices will also play a critical role in determining how much Tunisia is able to benefit from the opportunities offered by globalization.

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